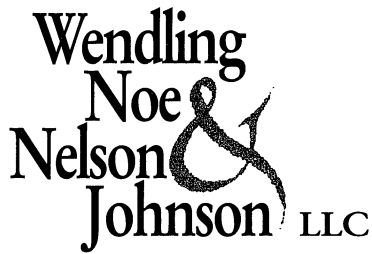


FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
RANSOM MEMORIAL HOSPITAL
DECEMBER 31, 2011 AND 2010

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Ransom Memorial Hospital

We have audited the accompanying financial statements of the business-type activity and discretely presented component unit of Ransom Memorial Hospital, a component unit of Franklin County, Kansas, as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Hospital's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the business-type activity and discretely presented component unit of Ransom Memorial Hospital as of December 31, 2011 and 2010, and their respective results of operations, changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The Hospital has not presented management's discussion and analysis as required by accounting principles generally accepted in the United States of America to supplement, although not required to be part of the basic financial statements.

Wendling Noe Nelson & Johnson 21c

Topeka, Kansas
May 11, 2012

RANSOM MEMORIAL HOSPITAL

BALANCE SHEETS

December 31,

ASSETS

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT ASSETS				
Cash and cash equivalents	\$ 1,113,371	\$ 33,047	\$ 1,241,950	\$ 16,372
Patient accounts receivable, net of allowance for doubtful accounts of \$3,287,096 in 2011 and \$2,263,000 in 2010	4,047,946		4,293,943	
Other receivables	442,212		517,881	
Inventories	1,022,756		1,020,258	
Prepaid expenses	252,213		222,440	
Total current assets	<u>6,878,498</u>	<u>33,047</u>	<u>7,296,472</u>	<u>16,372</u>
ASSETS LIMITED AS TO USE				
Internally designated by Board	5,818,734		7,270,094	
Deposit with Community Foundation		250,655		359,777
	<u>5,818,734</u>	<u>250,655</u>	<u>7,270,094</u>	<u>359,777</u>
CAPITAL ASSETS, net	<u>19,675,920</u>	<u>465,674</u>	<u>17,243,444</u>	<u>371,032</u>
Total assets	<u>\$ 32,373,152</u>	<u>\$ 749,376</u>	<u>\$ 31,810,010</u>	<u>\$ 747,181</u>

LIABILITIES AND NET ASSETS

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
CURRENT LIABILITIES				
Accounts payable and other accrued	\$ 984,989	\$ 12,152	\$ 490,910	\$ 13,836
Construction and equipment costs payable	740,723		1,453,086	
Salaries, wages, and related withholdings payable	741,830		630,823	
Accrued discretionary leave	682,671		631,535	
Estimated third-party payor settlements	415,109		315,109	
Other				12,500
Total current liabilities	<u>3,565,322</u>	<u>12,152</u>	<u>3,521,463</u>	<u>26,336</u>
NET ASSETS				
Invested in capital assets - net of related debt	19,675,920	465,674	17,243,444	371,032
Restricted				
Expendable for specific purposes		29,919		12,848
Nonexpendable permanent endowments		438,765		438,765
Unrestricted	<u>9,131,910</u>	<u>(197,134)</u>	<u>11,045,103</u>	<u>(101,800)</u>
Total net assets	<u>28,807,830</u>	<u>737,224</u>	<u>28,288,547</u>	<u>720,845</u>
Total liabilities and net assets	<u>\$ 32,373,152</u>	<u>\$ 749,376</u>	<u>\$ 31,810,010</u>	<u>\$ 747,181</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Operating revenues				
Net patient service revenue	\$ 27,735,542	\$ -	\$ 27,451,876	\$ -
Other	<u>1,926,049</u>	<u>103,471</u>	<u>446,381</u>	<u>175,721</u>
Total operating revenue	<u>29,661,591</u>	<u>103,471</u>	<u>27,898,257</u>	<u>175,721</u>
Operating expenses				
Salaries and wages	15,949,683		15,025,673	
Employee benefits	3,478,597		3,014,435	
Supplies and other	9,134,708	74,624	8,562,066	195,897
Depreciation and amortization	<u>2,237,568</u>	<u>15,728</u>	<u>1,878,012</u>	<u>12,883</u>
Total operating expenses	<u>30,800,556</u>	<u>90,352</u>	<u>28,480,186</u>	<u>208,780</u>
Operating income (loss)	<u>(1,138,965)</u>	<u>13,119</u>	<u>(581,929)</u>	<u>(33,059)</u>
Nonoperating revenues				
Investment income	49,406	3,260	199,178	42,949
Noncapital grants and contributions	23,302		15,525	
Sales tax revenue	1,519,565		1,518,716	
Other	<u>975</u>		<u>4,147</u>	
Total nonoperating revenues, net	<u>1,593,248</u>	<u>3,260</u>	<u>1,737,566</u>	<u>42,949</u>
Excess of revenues over expenses before capital grants and contributions	454,283	16,379	1,155,637	9,890
Capital grants and contributions	<u>65,000</u>		<u>215,531</u>	
Increase in net assets	519,283	16,379	1,371,168	9,890
Net assets at beginning of year	<u>28,288,547</u>	<u>720,845</u>	<u>26,917,379</u>	<u>710,955</u>
Net assets at end of year	<u>\$ 28,807,830</u>	<u>\$ 737,224</u>	<u>\$ 28,288,547</u>	<u>\$ 720,845</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Cash flows from operating activities				
Receipts from and on behalf of patients	\$ 28,081,539	\$ -	\$ 26,477,452	\$ -
Payments to or on behalf of employees	(19,291,137)		(17,896,524)	
Payments to suppliers	(8,647,900)	(76,308)	(8,689,122)	(181,936)
Other receipts and payments	<u>2,011,718</u>	<u>90,971</u>	<u>410,284</u>	<u>164,221</u>
Net cash provided (used) by operating activities	<u>2,154,220</u>	<u>14,663</u>	<u>302,090</u>	<u>(17,715)</u>
Cash flows from noncapital financing activities				
Sales tax revenue	1,509,565		1,498,716	
Noncapital grants and contributions	<u>23,302</u>		<u>15,525</u>	
Net cash provided by noncapital financing activities	<u>1,532,867</u>	<u>-</u>	<u>1,514,241</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(5,382,407)	(110,370)	(6,867,434)	
Grants and contributions for capital	65,000		215,531	
Proceeds from sale of equipment	<u>975</u>		<u>4,147</u>	
Net cash used by capital and related financing activities	<u>(5,316,432)</u>	<u>(110,370)</u>	<u>(6,647,756)</u>	<u>-</u>
Cash flows from investing activities				
(Increase) decrease in assets limited as to use	1,429,973	105,755	5,203,496	(4,387)
Investment income received	<u>70,793</u>	<u>6,627</u>	<u>227,508</u>	<u>8,002</u>
Net cash provided by investing activities	<u>1,500,766</u>	<u>112,382</u>	<u>5,431,004</u>	<u>3,615</u>
Increase (decrease) in cash and cash equivalents	(128,579)	16,675	599,579	(14,100)
Cash and cash equivalents at beginning of year	<u>1,241,950</u>	<u>16,372</u>	<u>642,371</u>	<u>30,472</u>
Cash and cash equivalents at end of year	<u>\$ 1,113,371</u>	<u>\$ 33,047</u>	<u>\$ 1,241,950</u>	<u>\$ 16,372</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended December 31,

	2011		2010	
	<u>Hospital</u>	<u>Component unit</u>	<u>Hospital</u>	<u>Component unit</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (1,138,965)	\$ 13,119	\$ (581,929)	\$ (33,059)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	2,237,568	15,728	1,878,012	12,883
Provision for bad debts	4,605,000		3,144,469	
Changes in				
Patient accounts receivable	(4,359,003)		(4,142,231)	
Inventories	(2,498)		(44,308)	
Prepaid expenses	(29,773)		86,345	
Accounts payable and accrued expenses	656,222	(348)	(25,509)	2,336
Estimated third-party payor settlements	100,000		23,338	
Other receivables	<u>85,669</u>	<u>(13,836)</u>	<u>(36,097)</u>	<u>125</u>
Net cash provided (used) by operating activities	<u>\$ 2,154,220</u>	<u>\$ 14,663</u>	<u>\$ 302,090</u>	<u>\$ (17,715)</u>

The accompanying notes are an integral part of these statements.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

A summary of the significant accounting policies of Ransom Memorial Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

Ransom Memorial Hospital (Hospital) is an acute care hospital located in Ottawa, Kansas, with a licensed bed capacity of 55 beds. The Hospital is owned by Franklin County, Kansas (County), and is governed by a seven-member Board of Trustees appointed by the County Commissioners. The Hospital is a component unit of the County.

The component unit discussed in Note A2 is included in the Hospital's reporting entity because of the nature and significance of its relationship with the Hospital.

2. Component unit

The financial statements include the financial data of the discretely presented component unit described below. The component unit is reported separately to emphasize that it is legally separate from the Hospital.

Ransom Memorial Hospital Charitable Association, Inc. (Association), is a not-for-profit corporation established in 1991 for the purpose of providing financial assistance to the Hospital and assisting the Hospital and others in the recruitment of physicians and other medical health care personnel to locate and practice in Franklin County, Kansas. The Association is administered by a self-perpetuating Board of Directors. One of the seven members of that Board is also a member of the Hospital's Board of Trustees.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially, all revenues and expenses are subject to accrual. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Accounting," the Hospital has implemented all applicable GASB pronouncements, and Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued before November 30, 1989, except those that conflict with GASB pronouncements, and has elected not to apply FASB Statements and Interpretations issued after November 30, 1989.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Cash and cash equivalents

The Hospital considers all cash and invested cash, excluding amounts reported as assets limited as to use and short-term investments, to be cash equivalents.

6. Allowance for doubtful accounts

The Hospital provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. The Hospital estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor.

7. Inventories

Inventories are stated at cost as determined by the first-in, first-out method.

8. Assets limited as to use

Assets limited as to use includes assets set aside by the Board of Trustees for replacement of capital assets or for the purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets restricted by contributors for specific purposes; and assets required to be retained in perpetuity by the contributors.

9. Capital assets

Capital assets (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

10. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

11. Accrued health insurance claims

The Hospital is self-insured for health insurance claims of its employees (see Note I). Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. The estimate is based on known claims and historical claims experience.

Although management believes the estimate for accrued health insurance claims is reasonable, it is possible that actual incurred claims expense may vary from the estimate.

12. Net assets

Net assets of the Hospital are classified in four components. "Net assets invested in capital assets net of related debt" consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted expendable" are net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital. "Restricted nonexpendable" are net assets equal to the principal portion of permanent endowments. "Unrestricted net assets" are remaining net assets that do not meet the definition of "invested in capital assets net of related debt" or "restricted."

13. Operating revenues and expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

14. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

15. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

The Association is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the balance sheet as estimated settlements with third-party payors consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Skilled nursing services rendered to swing-bed patients are paid at prospectively determined rates per day. Physician services are paid based on a prospectively determined fee schedule. Outpatient services are paid at prospectively determined rates per occasion of service. Those rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is paid for services at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare fiscal intermediary through December 31, 2008.

Medicaid - Inpatient acute care services rendered are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered are paid at prospective rates determined on either a per diem or a fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service revenue	\$ 70,924,525	\$ 66,003,615
Deductions from patient service revenue		
Third-party contractual adjustments	(37,328,667)	(34,412,033)
Medicaid DSH payments	663,926	979,313
Medicaid PAP payments	330,218	330,218
Other discounts and allowances	(1,632,415)	(1,553,586)
Charity care	(617,045)	(751,182)
Provision for bad debts	<u>(4,605,000)</u>	<u>(3,144,469)</u>
Net patient service revenue	<u>\$ 27,735,542</u>	<u>\$ 27,451,876</u>

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 37 percent and 14 percent, respectively, of the Hospital's net patient service revenue during 2011, and 35 percent and 12 percent, respectively, of the Hospital's net patient service revenue during 2010. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. The amount of charges forgone for services and supplies furnished under its charity care policy for 2011 and 2010, was \$617,045 and \$751,182, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was \$257,980 and \$300,496 for 2011 and 2010, respectively.

NOTE C - ASSETS LIMITED AS TO USE

Internally designated assets are assets to be used for replacement of capital assets or for the purchase of additional capital assets. The assets may be used for other purposes by action of the Board. Internally-designated assets consist of the following:

	<u>2011</u>	<u>2010</u>
Invested cash	\$ 5,815,979	\$ 7,245,952
Interest receivable	<u>2,755</u>	<u>24,142</u>
	<u>\$ 5,818,734</u>	<u>\$ 7,270,094</u>

Assets limited as to use, held by the Association, are carried at fair market value and consist of the following:

	<u>2011</u>	<u>2010</u>
Invested cash and money market pool	\$ 12,352	\$ 571
Equity pool	149,603	239,913
Fixed income pool	<u>88,700</u>	<u>119,293</u>
	<u>\$ 250,655</u>	<u>\$ 359,777</u>

The above amounts are invested in pooled investment accounts through the Greater Kansas City Community Foundation.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE D - CAPITAL ASSETS

Capital assets consist of the following:

	Balance December 31, 2010	Transfers and additions	Retirements	Balance December 31, 2011
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Land improvements	372,657			372,657
Buildings	19,553,969	4,311,167		23,865,136
Equipment	13,206,405	1,853,385	841,974	14,217,816
	<u>33,153,031</u>	<u>6,164,552</u>	<u>841,974</u>	<u>38,475,609</u>
Less accumulated depreciation and amortization				
Land improvements	315,684	10,405		326,089
Buildings	8,338,647	983,602		9,322,249
Equipment	8,755,557	1,243,560	841,974	9,157,143
	<u>17,409,888</u>	<u>2,237,567</u>	<u>841,974</u>	<u>18,805,481</u>
	15,743,143	3,926,985		19,670,128
Construction in progress	<u>1,500,301</u>	<u>(1,494,509)</u>		<u>5,792</u>
Capital assets, net	<u>\$17,243,444</u>	<u>\$ 2,432,476</u>	<u>\$ -</u>	<u>\$19,675,920</u>
	Balance December 31, 2009	Transfers and additions	Retirements	Balance December 31, 2010
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Land improvements	355,707	16,950		372,657
Buildings	12,681,094	6,872,875		19,553,969
Equipment	11,060,811	2,145,594		13,206,405
	<u>24,117,612</u>	<u>9,035,419</u>	<u>-</u>	<u>33,153,031</u>
Less accumulated depreciation and amortization				
Land improvements	304,723	10,961		315,684
Buildings	7,626,294	712,353		8,338,647
Equipment	7,600,859	1,154,698		8,755,557
	<u>15,531,876</u>	<u>1,878,012</u>	<u>-</u>	<u>17,409,888</u>
	8,585,736	7,157,407		15,743,143
Construction in progress	<u>2,418,830</u>	<u>(918,529)</u>		<u>1,500,301</u>
Capital assets, net	<u>\$11,004,566</u>	<u>\$ 6,238,878</u>	<u>\$ -</u>	<u>\$17,243,444</u>

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE E - OPERATING LEASES

The Hospital leases equipment under operating leases with related rentals charged to operations as incurred. Total rent expense for 2011 and 2010 was approximately \$70,000 and \$25,000, respectively.

Scheduled minimum rental payments for noncancellable operating leases for the next five years are as follows:

2012	\$ 106,581
2013	106,581
2014	106,581
2015	83,354
2016	<u>27,476</u>
	<u>\$ 430,573</u>

NOTE F - CONTINGENCY

The Hospital has entered into an agreement with a financial institution under which the Hospital transfers to the financial institution its interest in certain self-pay accounts receivable. The accounts are assumed with full recourse, and the Hospital is contingently liable for any uncollected accounts. Accounts transferred under this agreement amounted to approximately \$73,000 and \$118,000 in 2011 and 2010, respectively. At December 31, 2011 and 2010, approximately \$150,000 of these accounts were uncollected.

NOTE G - RISK MANAGEMENT

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of \$2,000,000 per occurrence with an aggregate amount in any policy year of \$2,000,000. All coverage is on a claims-made basis. The above policies are currently in effect through July 2012. The Hospital intends to renew this coverage on that date and is aware of no reason why such coverage would be denied at that time.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
December 31, 2011 and 2010

NOTE H - PENSION PLANS

Substantially all employees of the Hospital participate in the Ransom Memorial Hospital Match Plan or Physicians Match Plan (Match Plans) which are defined contribution pension plans. The payroll for employees covered by the Plans for 2011 and 2010 was approximately \$10,600,000 each year. The total payroll for 2011 and 2010 was \$15,949,683 and \$15,025,673, respectively. Contributions to the Plans by the Hospital are discretionary and are determined annually by the Board of Trustees of the Hospital. Contributions to the Match Plans are based upon matching employee contributions to the Match Plans up to a specific percentage of the employee's compensation. Hospital contributions to the Plans vest based upon the Plan's vesting schedule and the employee's years of service with the Hospital. Employee contributions to the Plans vest immediately. Net pension expense was \$241,870 for 2011 and \$168,259 for 2010. Contributions to the Plans are invested in self-directed investment accounts with an insurance company.

NOTE I - EMPLOYEE HEALTH INSURANCE CLAIMS

The Hospital is self-insured for health insurance claims of its employees. The Hospital has reinsured a portion of its risk for such claims. The reinsurance arrangement covers annual claims in excess of \$120,000 for each covered individual. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Hospital has retained a third-party administrator to process and settle claims. The Hospital reimburses the agent weekly for the amount of claims paid by the agent net of any amounts recovered by reinsurance.

The following is a summary of the activity under this arrangement:

	<u>2011</u>	<u>2010</u>
Estimated employee health insurance claims payable at the beginning of the year	\$ 275,000	\$ 140,000
Provision for employer's share of incurred claims and reinsurance expense for the period, net of any reinsurance proceeds	1,779,658	1,481,027
Employee contributions	524,465	505,211
Payments made for claims and reinsurance	<u>(2,329,123)</u>	<u>(1,851,238)</u>
Estimated employee health insurance claims payable at the end of the year	<u>\$ 250,000</u>	<u>\$ 275,000</u>

NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge

RANSOM MEMORIAL HOSPITAL
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NOTE J - DEPOSITS WITH FINANCIAL INSTITUTIONS - Continued

securities with a market value equal to total deposits, net of moneys acquired through grants, donations, bequests, and gifts, in excess of F.D.I.C. coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Hospital's deposits with financial institutions was \$6,928,651 and the bank balance was \$7,135,877 at December 31, 2011. The bank balance is categorized as follows at December 31, 2011:

Amount insured by the F.D.I.C., or collateralized with securities held by the Hospital or by its agent in the Hospital's name	\$ 2,374,893
Uncollateralized (collateralized with letter of credit or securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Hospital's name)	<u>4,760,984</u>
	<u>\$ 7,135,877</u>

NOTE K - CONCENTRATION OF CREDIT RISK

The Hospital is located in Ottawa, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2011</u>	<u>2010</u>
Medicare	28%	32%
Medicaid	13	14
Blue Cross	11	11
Commercial insurance	14	17
Self-pay	<u>34</u>	<u>26</u>
	<u>100%</u>	<u>100%</u>

NOTE L - OTHER RELATED PARTY TRANSACTION

Ransom Memorial Hospital Charitable Association, Inc., is a component unit of the Hospital (see Note A2). In 2011 and 2010, the Association transferred \$50,000 and \$150,531, respectively, to the Hospital to be used for capital asset additions.

RANSOM MEMORIAL HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
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NOTE M - SUBSEQUENT EVENT

On January 30, 2012, the Hospital entered into a real estate contract for the purchase of a medical office building at a price of \$570,000. Subsequent events have been evaluated by management through the date of the independent accountants' report, which is the date the financial statements were available to be issued.